

Message Text

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ORIGIN NEA-16

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FM SECSTATE WASHDC

TO USINT ALGIERS IMMEDIATE

INFO AMEMBASSY JIDDA

AMEMBASSY TEL AVIV

C O N F I D E N T I A L STATE 155252

E.O. 11652: GDS

TAGS: ENRG, AG, KU, QA

TEL AVIV PASS SECRETARY SIMON

1. MIDDLE EAST SITUATION CONTINUES TO IMPROVE AND OUR
RELATIONS WITH MAJOR NORTH AFRICAN AND MIDDLE EASTERN OIL
PRODUCING STATES ARE ENTERING A NEW PHASE. WE NOW HAVE
TO CONSOLIDATE BILATERAL ATMOSPHERE WITH THESE COUNTRIES
WHICH FOSTERS BROAD COMMUNITY OF COMPLEMENTARY INTERESTS
WE HAVE WITH THEM. WE WANT TO ACCENTUATE POSITIVE ELEMENTS
AND REDUCE POINTS OF FRICTION THAT HAVE DISTURBED OUR
PAST RELATIONS.

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2. HOWEVER, ALTHOUGH POLITICAL CLIMATE IS IMPROVING, FULL IMPLEMENTATION OF NEW COOPERATIVE RELATIONSHIPS WE SEEK IS INHIBITED BY CURRENT OPEC OIL PRICE POLICIES. IT IS OUR CONVICTION THAT WORLD OIL PRICES ARE MUCH TOO HIGH. THEY ARE STRAINING WORLD ECONOMY AND RETARDING ITS GROWTH. MAINTENANCE OF CURRENT PRICE LEVELS COULD CAUSE SERIOUS AND LASTING DISLOCATIONS AND LEAD TO VIRTUAL ECONOMIC COLLAPSE OF SOME LDC'S. ON BASIS OF CURRENT MARKET CONDITIONS, WE BELIEVE OIL PRICES SHOULD BE FALLING RATHER THAN RISING,

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AND CONSIDER RECENT OPEC DECISION TO RAISE ROYALTIES BY 2 PERCENT AS UNWARRANTED EVEN THOUGH IT WAS SMALL IN COMPARISON TO PRIOR INCREASES.

3. WE ARE STRONGLY OPPOSED TO ANY FURTHER OIL PRICE INCREASE. HOWEVER, IN REMONSTRATING AGAINST THESE PRICES, WE MUST AT SAME TIME TAKE INTO CONSIDERATION OUR OVERALL INTERESTS WITH PRODUCER STATES. TREND TOWARDS COMPLEMENTARY FINANCIAL, ECONOMIC, AND INDUSTRIAL - PARTICULARLY ENERGY - PROGRAMS MUST BE ENCOURAGED. BY STRESSING IN DEMARCHES WE MAKE TO PRODUCER GOVERNMENTS THESE POSITIVE ELEMENTS IN ADDITION TO FOCUSING ON THORNY SUBJECTS SUCH AS PRICE AND PRODUCTION POLICIES, WE AIM BOTH TO MODERATE PRODUCERS' DEMONSTRATED SENSITIVITIES ON THOSE SUBJECTS AND TO EMPHASIZE TOTALITY OF US-PRODUCER COUNTRY RELATIONS, WHICH HOLDS SO MUCH PROMISE FOR BOTH SIDES. IN CASE OF ALGERIA OUR PRESENTATION SHOULD CONCENTRATE ON THE ADVERSE EFFECTS HIGH PRICES HAVE ON THE WORLD ECONOMY, ON THE LDC'S, AND ON ALGERIA'S LONG TERM POTENTIAL EARNINGS. WE SHOULD MENTION BUT NOT STRESS OUR INTEREST IN COMPLEMENTARY FINANCIAL, COMMERCIAL AND INDUSTRIAL PROGRAMS.

4. YOU SHOULD SEEK AN EARLY OPPORTUNITY WITH APPROPRIATE SENIOR OFFICIALS IN YOUR HOST GOVERNMENT TO EMPHASIZE OUR VIEWS ON OIL PRICES AND TO ENCOURAGE THEM NOT TO RAISE PRICES FURTHER. IN MAKING YOUR REPRESENTATION, YOU SHOULD DRAW ON THE FOLLOWING TALKING POINTS:

-- I HAVE BEEN INSTRUCTED TO BRING TO THE ATTENTION OF
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YOUR GOVERNMENT, MY GOVERNMENT'S DEEP CONCERN WITH OIL PRICE DEVELOPMENTS. OUR CONCERN IS BEING EXPRESSED TO OTHER OPEC GOVERNMENTS AS WELL AS YOURS.

-- WE BELIEVE RECENT TWO PER CENT OPEC INCREASE - ALTHOUGH SMALL IN COMPARISON TO PRIOR INCREASES - WAS UNWARRANTED AND WILL FURTHER STRAIN WORLD ECONOMY.

-- THE QUESTION OF PRODUCTION IS, OF COURSE, CLOSELY RELATED TO THAT OF PRICING. WHILE WE ARE AWARE OF SENTIMENTS AND PRESSURES IN A NUMBER OF PRODUCER STATES TO REDUCE PRODUCTION FURTHER, WE BELIEVE THESE PRESSURES SHOULD BE RESISTED IN THE INTERESTS OF WORLD ECONOMIC STABILITY.

-- THE DIRECT AND INDIRECT BURDEN OF HIGH OIL PRICES ON THE WORLD'S CONSUMERS IS A HEAVY ONE. THE PLIGHT OF DEVELOPING CONSUMER COUNTRIES IS PRESSING; IN SOME CASES, INCREASED EXPENDITURES FOR ENERGY ARE SURPASSING THEIR

TOTAL AID RECEIPTS AND COULD LEAD TO VIRTUAL ECONOMIC COLLAPSE.

-- WE BELIEVE CURRENT HIGH PRICE LEVELS ARE IN THE INTEREST OF NEITHER CONSUMERS NOR PRODUCERS. IN THE SHORT RUN, THEY HURT CONSUMERS. BUT IN THE LONG RUN, PRODUCERS WILL ALSO LOSE BECAUSE MAINTENANCE OF HIGH PRICES WILL STIMULATE EVEN GREATER RESEARCH AND INVESTMENT INTO ALTERNATIVE SOURCES OF ENERGY AND ALTERNATIVES TO ENERGY USE. THE EFFECT WILL BE TO REDUCE THE TOTAL VALUE THE OIL EXPORTERS RECEIVE OVER THE LIFE OF THEIR PRODUCING FIELDS. THE NET RESULT WILL BE DISADVANTAGEOUS TO ALL.

-- IN OUR INTERDEPENDENT WORLD, THE ECONOMIC FUTURES OF ALL COUNTRIES ARE CLOSELY RELATED. ALL NATIONS, PRODUCERS AND CONSUMERS, WILL SUFFER IN A WORLD THAT IS CHARACTERIZED BY FALTERING AND FAILING ECONOMIES. WE URGE YOUR GOVERNMENT TO RECONSIDER ITS PRICING POLICY IN GENERAL. IN PARTICULAR, WE HOPE YOU WILL NOT INCREASE PRICES FURTHER AT THIS TIME.

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-- A RESOLUTION OF DIFFERING VIEWS ON PRICING AND PRODUCTION QUESTIONS IS URGENT AND ESSENTIAL. HOWEVER, AS BOTH SIDES NOW BEGIN TO WORK OUT THESE DIFFICULT BUT NOT INSOLUBLE PROBLEMS, WE BELIEVE IT IS IN THE INTEREST OF PRODUCERS AND CONSUMERS NOT TO LOSE THEMSELVES IN POLEMICS. THIS COULD INHIBIT GROWING AND BENEFICIAL TRENDS TOWARDS COMPLEMENTARY FINANCIAL, COMMERCIAL, AND INDUSTRIAL PROGRAMS WHICH HOLD SO MUCH PROMISE FOR ALL CONCERNED, BUT WHICH MUST BE BASED UPON A STABLE SUPPLY OF ENERGY TO THE GLOBAL ECONOMY.

-- TO THIS END, AND IN REALIZATION THAT STABLE SUPPLY AT REASONABLE PRICES IS CRUCIAL TO ANY CONSIDERATION OF

ENERGY PROBLEMS, WE HOPE TO ENCOURAGE A DIALOGUE WITH PRODUCER STATES WHICH DOES NOT FOCUS ON OIL PRICES AND PRODUCTION TO THE EXCLUSION OF THE MANY OTHER VERY IMPORTANT ASPECTS OF PRODUCER/CONSUMER RELATIONS.

5. IN REPLY, LOCAL GOVERNMENT OFFICIALS MAY SAY THAT INCREASED OIL PRICES ARE JUSTIFIED TO OFFSET THE HIGHER PRICES THE OIL EXPORTING STATES MUST PAY FOR IMPORTS FROM THE INDUSTRIALIZED COUNTRIES. THEY MAY CONTEND THAT THEIR COUNTRIES ARE PAYING 2-3 TIMES MORE FOR WHEAT AND TWICE AS MUCH FOR STEEL PRODUCTS THAN IN 1972. THEY SHOULD BE REMINDED, HOWEVER, THAT OIL PRICE INCREASES WERE NOT ONLY LARGER BUT MORE ABRUPT AND THEREFORE MORE DISRUPTIVE THAN FOR THOSE OF ANY OTHER COMMODITY. FURTHERMORE, THE US HAS MOVED VIGOROUSLY TO COUNTER HIGH PRICES ON ITS OWN

AGRICULTURAL EXPORTS BY EXPANDING ACREAGE AND INCREASING PRODUCTION. AS A CONSEQUENCE, WHEAT PRICES HAVE FALLEN SUBSTANTIALLY FROM EARLIER HIGHS. THE US STEEL INDUSTRY IS CURRENTLY PRODUCING AT FULL CAPACITY.

6. YOU WILL ALSO PROBABLY BE TOLD THAT THE OPEC DECISION TO RAISE ROYALTY OR OTHER TAXES IS DESIGNED TO REDUCE COMPANIES' "EXCESS PROFITS" AND NOT RAISE THE COST TO THE CONSUMER. IN FACT, ANY SUCH INCREASE WILL BE PASSED ON. PARAS 4-5 OF STATE 117824, WHICH
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IS BEING REPEATED TO YOU, DISCUSS HOW OPEC TECHNICIANS ARRIVE AT THE "EXCESS PROFIT" CLAIM AND SHOW THE PRICE INCREASE THAT WOULD RESULT FROM RAISING THE INCOME OR PROFIT TAX RATE. AN INCREASE IN ROYALTY PAYMENTS WOULD SIMILARLY RAISE THE PRICE OF OIL TO THE COMPANIES AND ULTIMATELY TO THE CONSUMERS.

7. FYI: IN VIEW OF ADAMANT POSITION TAKEN BY MOST OPEC MEMBERS IN FAVOR OF INCREASED OIL PRICES, WE DO NOT EXPECT HOST GOVERNMENT TO RESPOND TO YOUR DEMARCHE BY IMMEDIATELY MODIFYING POLICY. HOWEVER, WE BELIEVE IT IS IMPORTANT FOR THEM TO UNDERSTAND CLEARLY THE VIEWPOINT OF THE USG, TO REALIZE THAT WE ARE SERIOUSLY CONCERNED ABOUT THE WORLDWIDE ECONOMIC DISLOCATION WHICH HAS RESULTED FROM OIL PRICING POLICIES, AND TO BE INFORMED THAT WE DO NOT BELIEVE FURTHER PRICE INCREASES CAN BE JUSTIFIED UNDER THE PRESENT CONDITIONS.

8. PLEASE REPORT THE REACTION OF YOUR HOST GOVERNMENT TO OUR DEMARCHE. KISSINGER

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